

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

MAR 26 1982

Gentlemen:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(4) of the Internal Revenue Code.

The evidence presented discloses that you were formally organized as an association in [REDACTED].

Your purposes, briefly stated, include:

- 1) to serve as a vehicle through which residents of the community can communicate with each other;
- 2) to develop and maintain a network system with the individuals that comprise the community of [REDACTED];
- 3) to maintain and expand contact with community and professional organizations;
- 4) to facilitate the organization and implementation of mutual assistance projects.

You state that you are trying to develop a food and pharmaceutical cooperative. The coop provides low-cost medicines and foodstuffs.

You also state that the "members of [REDACTED] [REDACTED] benefit directly through self-employment and low-cost goods."

You intend to hire "information specialists" who will essentially be fund-raisers and consultants. You anticipate that all employees, of whatever rank, will earn a minimum of [REDACTED] per month. The information specialists and the actual employees of the coop are heretofore unemployed individuals or individuals that are under-employed. Thus, you state that the major problem that you hope to address is unemployment. Your plans are to develop a large-scale cooperative so that you can employ large numbers of people and provide a greater range of services.

| Code | Initiator | Reviewer | Reviewer | Reviewer | Reviewer | Reviewer | Reviewer |
|---------|-----------|------------|----------|----------|----------|----------|----------|
| Surname | | [REDACTED] | | | | | |
| | | [REDACTED] | | | | | |

Section 501(c)(4) of the Internal Revenue Code provides exemption for:

"Civic Leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare..."

Section 1.501(c)(4)-1(a)(2)(i) of the Income Tax Regulations provides that:

"An organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterment and social improvements."

Section 1.501(c)(4)-1 of the regulations provides, in part as follows:

"(a)(1) In general. A civic league or organization may be exempt as an organization described in section 501(c)(4) if -

- (i) It is not organized or operated for profit; and**
- (ii) It is operated exclusively for the promotion of social welfare."**

Revenue Ruling 73-349 is applicable to your organization. It describes an organization formed for the purpose of purchasing groceries for its membership at the lowest possible prices on a cooperative basis. The organization was denied exemption because it was formed for the economic benefit and convenience of its members.

Revenue Ruling 78-132 describes an organization that was formed to facilitate the exchange of personal services among members. The organization was a private cooperative enterprise for the economic benefit of the member. This organization was denied exemption because it was operated primarily for the benefit of its members.

Revenue Ruling 77-127 held that an organization formed to operate a retail grocery store to sell food to residents of a poverty area at prices substantially lower than those charged by competing grocery stores, to provide free grocery delivery service to residents who need it, to participate in the Federal food stamp program, and to provide job training for unemployed residents did not qualify for exemption. Although providing job training for the hard-core unemployed is charitable and educational within the meaning of section 501(c)(3) of the Internal Revenue Code, the organization's purpose of operating a retail grocery store where food is sold to residents of a poverty area at low prices is not a charitable or educational purpose within the meaning of section 501(c)(3) of the Code.

[REDACTED]

On the basis of the information submitted we conclude that you are not exempt from Federal income tax because you are performing services for the private benefit of your members and any benefits to the community are not sufficient to meet the requirement of the regulations that the organization be operated primarily for the common good and general welfare of the people of the community. Therefore you are required to file Federal income tax returns on Form 1120.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6012 in the enclosed self-addressed envelope as soon as possible.

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely yours,

[REDACTED]
[REDACTED]
Acting District Director

Enclosures:
Publication 892
Form 6012